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## Committee on Financing the BBC

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### Press Release

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### VIEWERS AND LISTENERS TO BE IN DRIVING SEAT

#### "Peacock" Findings Published

#### Broadcasting Strategy

Radical changes in the structure of British broadcasting are recommended in the Report of the Committee on Financing the BBC, published today ("Peacock Committee") available from HMSO and booksellers.

The Committee's evolutionary strategy is set out in Chapter 12 (Conclusions and Recommendations). Its central finding states:

British broadcasting should move towards a sophisticated market system based on consumer sovereignty. That is a system which recognises that viewers and listeners are the best ultimate judges of their own interest, which they can best satisfy if they have the option of purchasing the broadcasting services they require from as many alternative sources of supply as possible. (Paragraph 592)\*

The market needs, however, to be supplemented by direct public finance for programmes of a "public service kind". These are programmes which people are prepared to support as citizens and taxpayers, even if they are not commercially self-supporting. (Paragraph 562)

#### Committee's Task

The Report reminds readers that the Committee's terms of reference specifically asked it to examine proposals for financing the BBC not only through the licence fee and advertising, but by other means. It was required to examine the consequences of any changes for a wide range of broadcasting and other media. The rapidly changing technological scene, as a result of DBS, cable and the development of new charging systems made it undesirable for it to take a narrow view of its task; and it agreed with those witnesses who maintained "that before we can devise guidelines for the finance of broadcasting, we have to specify its purposes." (546)

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\* Paragraph references are mostly to Chapter 12 (Conclusions and Recommendations). This chapter in turn refers back to the supporting material in the main body of the Report.



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### Free Speech and Consumer Choice

The Committee's strategic aim is to enlarge "the freedom of choice of the consumer" and the opportunities "to programme makers to offer alternative wares to the public". This is founded on the principle of "free speech", which, the Committee notes, is entrenched in the USA in the First Amendment to the Constitution, as well as in the principle of consumer sovereignty. The highly regulated UK broadcasting market is contrasted with that for the printed word which, though severely restricted in its early days, was freed from pre-publication censorship in Parliament as early as 1694 (546-549).

### BBC and ITV Successes

In contrast to print publishing, close regulation of broadcasting has been necessary during a period of "spectrum shortage"; and the Report pays tribute to the achievements of both the BBC and IBA in raising public taste and improving understanding of public affairs. ("Yes, Minister" is singled out for mention.) (550, 580-582)

### Technological Development

Technological developments in DBS, cable, and subscription technology, will however reduce the need for such close regulation in future. Moreover, regulation will become increasingly difficult to enforce in a world of "television without frontiers". (551, 589-591)

The Report points out that neither the existing hypothecated tax in the form of the licence fee, nor the alternative of competition among a small number of broadcasters to sell audiences to advertisers, fully provides for the requirements of an increasingly sophisticated broadcasting audience. (552-553, 571-573, 584). The Committee favours direct payment by consumers ("pay-per-channel" and "pay-per-view"), together with "freedom of entry to any programme maker who can cover his costs". (552-553). This is not just a matter of "providing the consumer with what he or she already wants" but of producers competing "to persuade individuals of the existence and value of new or different kinds of experience". (557-560).

### Public Service

The Committee has made a careful analysis of the "public service" ideal. The term is used in many different senses, and BBC spokesmen have not always helped to clarify the discussion. (577) The best operational definition is "any major modification of purely commercial provision resulting from public policy". (580) (The difference between pure commercialism and a sophisticated consumer market is a recurrent theme of the concluding chapter and is implicit throughout the report.)

### Regulation and Censorship

The first public service role of "mimicking the market" (581) may be expected to fade away once there is a fully developed consumer market with multiplicity of choice and direct payment to reflect the intensity of preferences. But the second role of public patronage for "demanding" or minority programmes will always remain (551-556). The important point is "that public intervention here should be of a positive kind and transparent, to help finance additional production, rather than of a negative, censorious kind, oblique and undetectable, which even the best system of regulation risks becoming." Once the right conditions are established there will be no need for "regulation" apart from the general law of the land, which it is proposed (Recommendation 18) should be aligned for broadcasting and non-broadcasting purposes. (592, 595, 597, 669).



As an immediate step to reduce pre-broadcasting vetting, the legal responsibility as publisher in the case of ITV should be transferred from the IBA to the ITV contractors and ITH. (670)

There should be a phasing out of all censorship and vetting in the course of Stages Two and Three (see below). "Pre-publication censorship, whether of printed material, plays, films, broadcasting or other creative activities or expressions of opinion, has no place in a free society and we would want to advise Government and Parliament to embark forthwith on a phased programme for ending it." (690-696)

### Three Stages

Because the technical conditions for a fully developed consumer market - the Committee's firm goal - will take time to develop, the Committee has in mind three stages of implementation:-

1. Indexation of the BBC licence fee.
2. Direct subscription to replace the main part of the licence fee.
3. Multiplicity of choice with pay-per-view, as well as pay-per-channel, available.

This staging is a guide and not a "central plan"; and at the end of each, there will be an opportunity to "stop, look and listen" before moving to the next. The Committee has deliberately refrained from giving the precise dates, but there is a reference to a "couple of decades or so before the final goal is achieved"; and the assumption is that the BBC might go over to subscription "well into the 1990s". (603-610)

Because it is ridiculous to lay down now highly precise mechanisms for the later 1990s or the 21st century, there are no "black type" Recommendations for that period. But more importance is attached to the strategic aim than to the immediate arrangements for the licence fee and related matters.

Indeed many of the Recommendations meant to take place in Stage One - in other words very soon - are designed to pave the way for the fuller broadcasting market in later stages.

### Preparation for Subscription

Recommendation 1 is indeed a technical one, which requires all new television sets to have equipment which will facilitate direct consumer subscription at low cost. (611)

Subscription is welcomed as a move towards consumer choice, as a non-compulsory way of paying for the BBC - which will reduce resentment of the charge - as a step towards pay-per-channel and pay-per-view, and as a way of protecting the BBC from political pressures. (606-607)

Another key proposal (Recommendation 17) is that present restrictions on pay-per-channel and pay-per-view should be removed forthwith.

### National Cable Grid

One possible route to the full broadcasting market is the development of a fibre optic network by the telecommunications industry. (661-666) The Committee therefore proposes the removal of the many restrictions now



allowing as that British Telecom and other telecommunications operators could also act as common carriers for a full range of services including delivery of television programmes (Recommendation 13). The restrictions of cable franchises to BBC-owned operators should also be removed (Recommendation 14).

## DBS

Direct Broadcasting Satellites are another area where market processes can be introduced forthwith. The Committee proposes that DBS franchises should be put in competitive tender (Recommendation 13); and notes that a complex regulatory framework is not desirable for DBS. (659)

## Competition

Another key recommendation designed both to encourage diversity and competition and to put pressure on high broadcasting costs is that over a ten year period the BBC and ITV should be required to take "not less than 40 per cent" of programmes from independent producers (Recommendation 8). It is also "extremely unhealthy" that independent producers "should face what is virtually a monopoly buyer in Channel 4". (647-654). As a further step towards competition, the non-occupied night-time hours of BBC and ITV wavelengths should be sold (Recommendation 9). Channel 4 should be "given the option" of selling its own advertising time, in which case it would no longer be a subsidiary of the IBA (Recommendation 14).

## Financing the BBC

During Stage One, while most viewers and listeners continue to rely on the BBC, ITV and independent local radio, it will be necessary to secure the continuity and stability of BBC finances. This will mean a continuation of the licence fee. The Report contains detailed assessments of the likely growth of advertising revenue and the likely response of advertisers to additional slots on the BBC (Chapter 8); but its recommendation against forcing advertising on the BBC (Recommendation 2) is "not dependent on these estimates", but on the "reduction in the satisfaction and range of choice available to viewers and listeners" likely if advertising is introduced into the BBC "so long as the present duopoly remains in being and competition is limited to a fringe of satellite and cable services". Moreover, advertising does not provide the television equivalent of a "free lunch". (615-619)

Pending the arrival of direct payment by viewers and a multiplicity of channels, the Committee advocates indexing the licence fee to the general rate of inflation at the next licence fee review in 1988 from a basis of £60 on 1st April 1987, with some last resort flexibility on the lines of the treatment of tax thresholds under the indexation provisions of the Finance Acts (Recommendation 3). Such indexation "would bring a measure of insulation of the BBC from a political influence". (620-625) Cases such as Churchill's expulsion from the air in the 1930s are fortunately rare. (583) But less extreme examples still occur.

To meet dissatisfaction with the once-a-year lump sum burden of the licence fee, the BBC rather than the Post Office should be the Managing Agent for its collection (Recommendation 4). The BBC should invite competitive tenders and it ought to be possible to give viewers a choice of methods. The Committee is "attracted by methods such as a surcharge on the electricity bill where (a) collection is at least once a quarter and (b) the onus is on non-television owners (1 per cent of all householders) to apply for exemption". It feels "that it would be desirable to broaden the base of the licence fee, for example by imposing a separate licence for multiple sets and for instituting a separate licence for televisions which are used for public viewing".



Attention should also be given to bringing the monochrome licence fee closer to that of the colour licence fee". (626-631)

Although the Committee in general dislikes hypothecated benefits and prefers cash help for the poor (568), it does nevertheless recommend that pensioners in households wholly dependent on supplementary pension should be exempt from the licence fee (Recommendation 6).

### Radio

The Committee recommends a separate licence fee of "not less than £10" for car radios. The proceeds would be used to reduce the total cost of the television licence (Recommendation 5).

Radio is "in a different category from television". The problem of spectrum shortage is less acute and this lessens the need for detailed regulation. Moreover, "mass appeal" channels of Radio 1 and 2 (although not Radio 3 or 4 or local radio) might be provided on a commercial basis.

All members of the Committee wish to replace IBA regulation of the "commercially hard pressed" commercial radio sector "by a looser regime" (637-644). Five members wish to privatise Radio 1 and 2. (The proceeds would be retained by the BBC.) They also recommend that radio frequencies should in future be auctioned to the highest bidder" (subject to existing commitments to community radio).

The other two members oppose the enforced privatisation of Radio 1 and 2,\* because they fear it "would seriously damage the residual BBC radio services" and the overseas services, and would "cripple a number of ILR companies". But they themselves suggest that the BBC should have the option to privatise Radio 1 and Radio 2 and also "local radio in whole or part". (Recommendations 7 and 7a).

### IBA Franchises

The most contentious issue facing the Committee was the award of IBA franchises in Stage One. All the members agreed that there is an endemic weakness in the control of cost in a 'Comfortable Duopoly' (the title of Chapter 4). "No amount of scrutiny by accountants or consultants can be a substitute for the direct pressure of a competitive market". The inflation of costs probably has its origin in the ITV side. "Inevitably the profits theoretically obtainable from a monopoly franchise in a large and prosperous region are shared between the programme contractors and the unions, with the taxpayer - the real freeholder of the franchised public asset - coming a poor third through the levy." (585)

The present combination of the levy system and the discretionary allocation of franchises offers too little incentive to economise in costs (a topic analysed in Chapter 11): Accordingly four members\*\* recommend that franchise contracts should be put to competitive tender (Recommendation 10). As monopoly profits would be creamed off in advance, the need for the levy would go. In addition, an element of "due process" would be introduced into what has been a highly arbitrary exercise of power. (It was Lord Thomson who said: "There must be a better way.") So long as the duopoly continued, the IBA would still regulate

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\* Judith Chalmers and Professor Alastair Betherington

\*\* Professor Pendergast, Samuel Brittan, Lord Quincey, Sir Peter Reynolds



quality and schedules. The IBA could award the contract to a lower bidder if it believed it to be offering better value for money in public service terms. But the IBA would then have "to make a full, public and detailed statement of its reasons". (655-656)

Some members fear that the cure would be worse than the disease and "do not recommend this system, certainly as long as the duopoly lasts. First, it would be very hard for the IBA to choose between a high cash bid and bid which offered less money but a better chance of high quality public service broadcasting... Second, we do not think that the public service undertakings given by bidders can be made sufficiently precise to be legally enforceable... Third, a system of competitive tenders is designed to reduce profits. It therefore makes it more likely that companies, through bad luck or bad management, will make losses or poor profits."

There is no dissent, however, on the proposal to award franchises on a rolling review basis, with a formal annual performance review or with the suggested extension of the franchise period "perhaps to 10 years" (Recommendations 11 and 12).

### Stages Two and Three

The further stages towards a fully developed broadcasting market are central to the Report; and the Stage One recommendations are designed to make a major step towards achieving them. (671) An evolutionary approach gives an opportunity to pause to examine the exact way forward towards the already stated goal. (704)

### Subscription

The Report goes into some detail into the conditions for the replacement of the licence fee by subscription "well before the end of the century". Subscription is regarded "as a way in which all broadcasting organisations, including the BBC, can sell their services directly to the public. We do not see it as simply an alternative way of collecting the licence fee". Three years' advance notice should be given of its start. "We envisage that the BBC would look to subscription and ITV to advertising revenue for mainstream income." But if it wished to do so, the BBC could "finance some of its operations by advertising and the ITV companies sell some of their programmes by subscription." But there is no case for enforcing encryption on ITV. Subscription systems for all kinds of terrestrial broadcasting, DBS and cable should be compatible. (673)

The timing of the change to subscription will depend on a political decision that a sufficient number of households possessed appropriately adapted sets. (Rented sets are on average changed every 3 years and retired after 9. Paragraph 674.) The likely take-up of subscription to the BBC is analysed. The best guess is 75 to 80 per cent. (674-681)

### Universality

While it is not realistic to expect every new broadcasting service to be available in the remotest region, the Committee believes that virtually the whole population should receive the equivalent of at least four mainstream



television channels. If this does not happen naturally, the Government of the day should ensure it by subsidy or direct provision. (569-570, 699.)

### Public Service in Stages Two and Three

"The defenders of the duopoly", remarks the Report, "may unwittingly be the worst enemies of public-service", in the sense of minority, innovative or specialist programmes. "For the ability of the existing system to finance these programmes could wither away without any alternative source of provision of finance having been developed." (591).

Some of such programmes could become commercially viable with multiplicity of choice and pay-per-view ("narrow casting"). But both because it does not wish to rely on this, and because of the risks of the intermediate stage when present-day regulation may have withered, but channels are still limited, the Committee has suggestions for the finance and organisation of public service broadcasting in the post-licence fee period. A Public Service Broadcasting Council (PSBC) is envisaged which would be able to make grants to both the BBC and private enterprise broadcasters. (593, 682-688). In the early period priority might be given to the BBC. Where a PSBC grant is provided, broadcasts should not be encrypted.

The Committee has no objection to direct Exchequer finance for the PSBC. But as a matter of prudence, finance from within broadcasting would be desirable. The following are among the possible sources of revenue:

1. The economic rents paid by ITV contractors under competitive tendering.
2. Revenues from increasing commercial use of broadcasting frequencies, e.g.
  - (a) The revenues from downloading in the "silent hours".
  - (b) The transmission of commercial data.
3. Maintaining an indexed licence fee at a lower rate than the present one on all television sets to support the PSBC. (688-689)

### Transmission

The Report emphasises the distinction between the transmission, channelling and making of programmes. Competition and free entry are vital in the two latter functions. But there is a case at some time in the 1990s for establishing a common Broadcasting Transmission Authority to take over the transmission responsibilities of both the BBC and the IBA and be responsible for the up-link of DBS services and for certain other services. (698)

### The Body of the Report

In addition to its Conclusions and Recommendations in Chapter 12, the 'Peacock Report' provides a unique and authoritative guide to British broadcasting and its problems and prospects. Chapter 1 outlines the tasks and issues, while Chapter 2 describes the history, position, and prospects of the BBC, ITV, cable, DBS and so on. The "central problems of broadcasting finance" are discussed in Chapter 3, which also contains summaries of overseas experience. Chapter 4 analyses the "Comfortable Duopoly" in theory and practice.

The "options for financing the BBC" are set out in Chapter 5, while the problems of the licence fee are investigated in Chapter 6. Possibilities of



funding the BBC by overt taxation or a lottery are examined in Chapter 7. There follows in Chapter 8 a summary of the Committee's investigations into the effects of advertising on the BBC, both on the revenues of the broadcasting and other media and also in some detail, on "range and quality". Chapter 9 examines specific options for introducing advertising on BBC television and radio and "sponsorship". The most innovative chapter is probably Chapter 10, which covers subscription and "electronic publishing". Three special colour charts show how telecommunications systems might evolve with satellite, fibre optic cable and other developments (pages 103 to 105). Chapter 11 analyses broadcasting costs. The factual findings are summarised at the beginning of Chapter 12 as follows (541):-

- i) the BBC has run into problems because the natural buoyancy of the licence revenue arising from the transition to colour television has come to an end (paragraphs 56-58, 213-221);
- ii) much of the unpopularity of the licence fee arises from the annual lump sum nature of the payment, and the burden it inflicts on the poor, many of whom are highly dependent on television for information and entertainment (paragraph 209);
- iii) in addition both the ITV and the BBC sectors have suffered from cost and efficiency problems arising from what we have called the 'comfortable duopoly' (chapters 4 and 11);
- iv) the duopoly is seriously threatened by the development of alternative means of programme delivery, including DBS, cable and VCRs (paragraphs 87-122, 425-426, 495-511);
- v) the advent of Channel 4 has introduced into broadcasting a new category of independent producers. They have considerable potential for introducing more competition into the industry; but their development is constrained by their limited market and their virtual dependence on a single monopoly buyer (paragraphs 71-74);
- vi) the introduction of advertising into the BBC, even in a gradual phased way, is likely to depress the growth of ITV revenues compared with what they would otherwise be (paragraphs 277-298, 317-326, 361-386, 415-422);
- vii) so long as spectrum scarcity prevails, and there is no direct means of consumer payment for programmes, rivalry between two systems even partly dependent on advertising is likely to intensify the "ratings war" and so reduce the effective range of choice open to viewers and listeners (paragraphs 299-316, 327-337, 349-358, 387-390, 406-409, 420-422);
- viii) the technology now exists for direct subscription by viewers to television services. Its cost to the consumer will be reduced if all new television sets coming onto the market are suitably equipped for reception of encrypted programmes (paragraphs 120-122, 423-476, 515-519);
- ix) the evidence we have received from public opinion surveys shows a degree of public willingness to pay directly for BBC programmes and services (paragraphs 439-448);
- x) fibre optic technology has been developed which should in principle allow viewers, paying directly, to receive a simultaneous choice of an indefinitely large number of programmes and to pay either per



channel or per view, (paragraphs 156, 477-492, 505-511). British Telecom would be likely to convert its local telephone lines to fibre optic cable, if it were allowed to transmit television programmes and to engage in the full range of interactive services (paragraph 493).

- xi) Independent Radio has been in financial difficulties, partly because, in contrast to what occurred in many other countries, advertising on radio arrived in Britain after advertising on television. The absence of a 'national spine' has also affected development (chapters 2 and 9).
- xii) The composition of both ILR and BBC Local Radio varies a great deal; but on the whole the BBC provides a greater component of speech (chapter 9).

The Committee made several overseas visits and received evidence from 843 organisations and individuals. The Committee is making the main evidence available to the public in the Public Records Office in Kew, London. (Letters from individuals, often elderly people living alone, which usually express a preference either for or against advertising and are in the form of a handwritten letter, have not been made available.) The Committee commissioned eleven research papers (listed in Appendix D of which four have been published by HMSO). Some 20 research papers, including papers submitted in evidence are summarised in Appendix G. Appendix F is "A Simple Guide to the Electromagnetic Spectrum" by the Committee Secretary, Dr Robert Eagle.

#### TERMS OF REFERENCE

The former Home Secretary, the Rt Hon Leon Brittan, QC, MP, announced on 27th March 1983, the establishment of the committee on the Financing of the BBC, under the chairmanship of Professor Alan T Peacock, DSC, FBA. The other members were announced on May 17, 1985. The terms of reference were:

- i) To assess the effects of the introduction of advertising or sponsorship on the BBC's Home Services, either as an alternative or a supplement to the income now received through the licence fee, including
  - (a) the financial and other consequences for the BBC, for independent television and independent local radio, for the prospective services of cable, independent national radio and direct broadcasting by satellite, for the press and the advertising industry and for the Exchequer; and
  - (b) the impact on the range and quality of existing broadcasting services; and
- ii) to identify a range of options for the introduction, in varying amounts and on different conditions of advertising or sponsorship on some or all of the BBC's Home Services, with an assessment of the advantages and disadvantages of each option, and
- iii) to consider any proposals for securing income from the consumer other than through the licence fee.



Professor Alan Peacock DSC FBA: Research Professor in Public Finance, The Esmée Fairbairn Research Centre, Heriot-Watt University. He has held Chairs in Economics at Edinburgh, York and Buckingham Universities and was the first Vice Chancellor of the University of Buckingham. From 1973-76 he was Chief Economic Adviser and a Deputy Secretary at the Department of Trade and Industry. He served on the Royal Commission on the Constitution (1970-73) and on the Fowler Enquiry into Retirement Provision (1984-85). He has written extensively on the economics of public finance, social policy and of the Arts.

Mr Samuel Brittan: Principal Economic Commentator and Assistant Editor of the 'Financial Times'. He was a former Economics Editor of 'The Observer' and was a Journalist Fellow of Nuffield College, Oxford from 1973-1974 and Visiting Fellow from 1974-1982. He was Visiting Professor at the Chicago Law School in 1978. Mr Brittan won the first senior Wincott award for financial journalism in 1971 and the George Orwell prize, for political journalism, in 1980. He has published a number of works on political economy.

Miss Judith Chalmers: Television and radio presenter and travel journalist. She presents 'Wish you were here ..... ?' for Thames Television and is a commentator for Independent Television on Royal and State occasions and other special events such as the Derby and Royal Film Performances. She is regularly in the chair for BBC Radio 4's 'Tuesday Call' programme and is travel editor of Woman's Realm. She has been a Member of the National Consumer Council since November 1984 and is Chairman of the Appeals Committee of the Women's National Cancer Control Campaign. She is a director of Durden-Smith Enterprises Ltd and Chelsea Restaurants plc.

Mr Jeremy Hardie CBE: Mr Hardie, economist, accountant and businessman, is Chairman of the National Provident Institution, a former deputy chairman of the Monopolies and Mergers Commission, and a member of the Arts Council. He has held a number of academic posts, including Fellowships of Trinity and Keble College, Oxford, as well as senior positions on the boards of a number of companies in the field of banking, insurance and investment management. He is the prospective SDP candidate for the Norwich South constituency and a director of Broadland Radio, the Great Yarmouth and Norwich ILR station.

Professor Alastair Hetherington: Research professor of Media Studies at the University of Stirling. He is a former Editor of 'The Guardian' and a former Controller of BBC Scotland. Professor Hetherington served as a Member of the Royal Commission on the Police 1960-1962 and was Journalist of the Year in the National Press Awards, 1970. He is the director of a small independent television production company, Scotquest, and is a member of IPPA.

Lord Quinton FBA: President of Trinity College, Oxford. He has held a number of academic posts and Fellowships in Britain and America. He has served as a member of the Arts Council and is a former President of the Aristotelian Society. Lord Quinton has published a number of works in the field of philosophy. He is the chairman of the British Library.

Sir Peter Reynolds CBE: is Chairman of Ranks Hovis McDougall plc. He is a former Managing Director and Chairman of Walls Ltd, a director at the Guardian Royal Exchange plc and a director of Boots plc. He has been a member of the Irish Development Board since 1982 and has been a member of the Food and Drink Economic Development Council since its inception (1976) and Chairman of the Employment Committee since 1982.



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